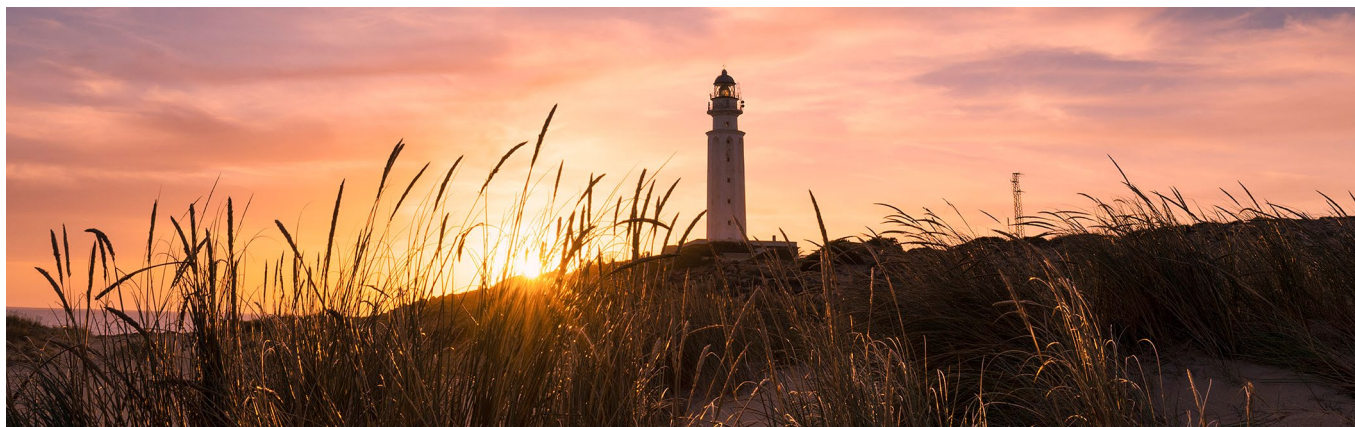


# GIC Monthly View Summary October 2024

26 September 2024



## The ripple effect of the Fed rate cut

- ◆ The Fed rate cut and its forecast of a soft landing are supporting global risk appetite. Although markets have already rallied substantially in anticipation, equities have historically rallied further after the first rate cut when a recession is avoided.
- ◆ Rate-sensitive stocks have benefited recently, but in the absence of a recession, we do not want to be too defensive. So, while we raise the utilities sector to a mildly overweight position, we also do the same for the communication services sector and maintain a balanced sector stance.
- ◆ Like many investors, we want to avoid overpaying when picking stocks, but also want to tap into their solid growth, driving us to a GARP approach (Growth At a Reasonable Price).
- ◆ As US cash rates fall, the search for yield and carry should broaden. Fed cuts also create more scope for EM rate cuts, while EM currencies find support from their carry. We raise EM local currency bonds from mildly underweight to neutral. We also continue to lock in yields of quality credit.
- ◆ For Asia, China's financial regulators' larger-than-expected package of measures is an additional source of support for risk appetite even though longer-term challenges remain for Chinese growth. ASEAN should benefit from any pickup in regional activity, the supply chain re-orientation and active diversification by Asian investors. We thus upgrade Singaporean equities to mildly overweight, move Indonesian USD corporate and local currency government bonds to mildly overweight and upgrade both IDR and PHP to a bullish stance.

Watch a summary of our latest views



[Click](#) on the image to hear from our **Global Chief Investment Officer, Willem Sels**

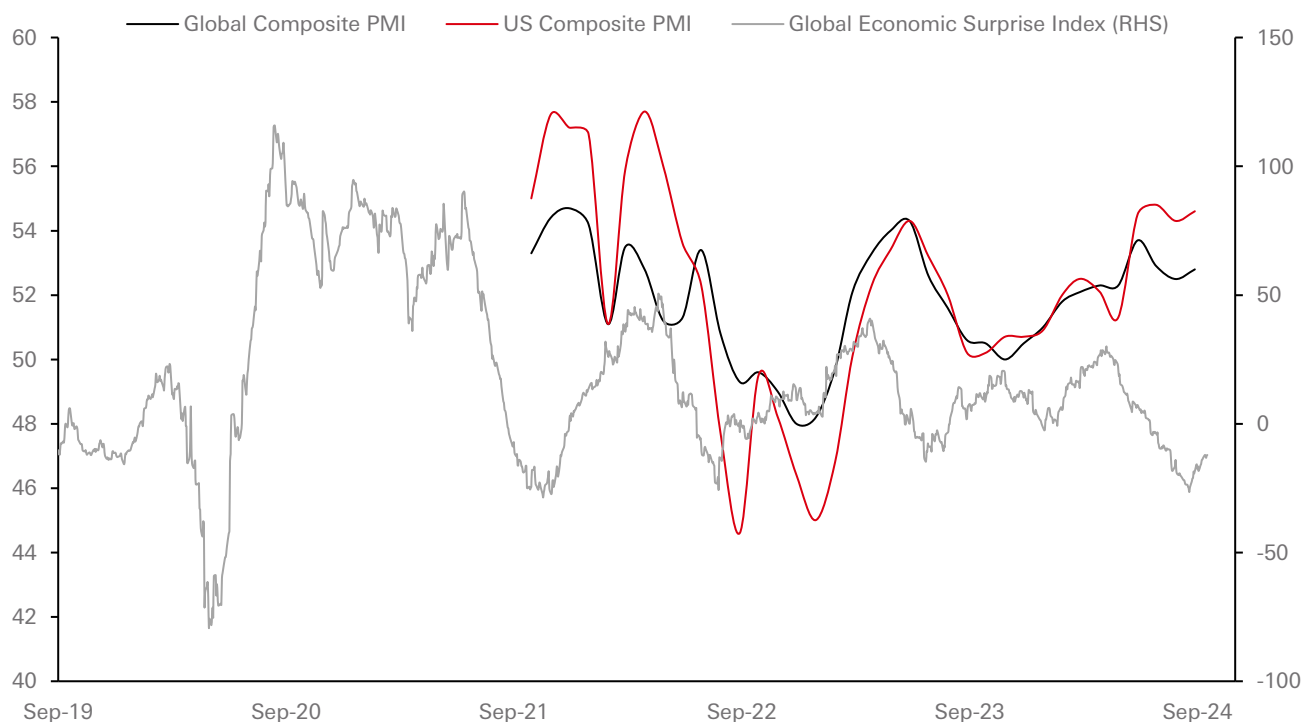
# Priority #1 > Targeting earnings endurance amid moderate global growth

- ◆ In spite of the US economic slowdown and global growth operating at just a moderate pace, plenty of companies have displayed they can deliver strong earnings. Fed's 2% growth forecast for 2024 and 2025 further confirms they don't see a recession in the foreseeable future.
- ◆ But as the market volatility in August has shown, investors are increasingly attentive to cyclical risks and valuations.
- ◆ As a result, we focus on companies and areas of the market that can deliver the earnings endurance to warrant those valuations. We look for companies with strong market position, innovation and healthy balance sheets required to support earnings.

## Our focus:

- ◆ We take a bottom-up and selective approach in this stock-pickers' market as earnings power differs from one company to the next while widening the sector and geographical net.
- ◆ Within developed markets, we are overweight on US, UK, Spanish and Japanese stocks and take a balanced sector and style approach.
- ◆ We upgrade Singapore equities to mild overweight, which remain attractively valued, and the REITs in Singapore should benefit from the global rate cuts.
- ◆ While we maintain an overweight in technology, we continue to broaden our exposure both within tech and in other sectors, including our overweight positions in healthcare, industrials, financials, utilities and communications.

## The global economy has been slowing but should not go in recession; could it have found a bottom?



Source: Bloomberg, HSBC Global Private Banking as at 23 September 2024.

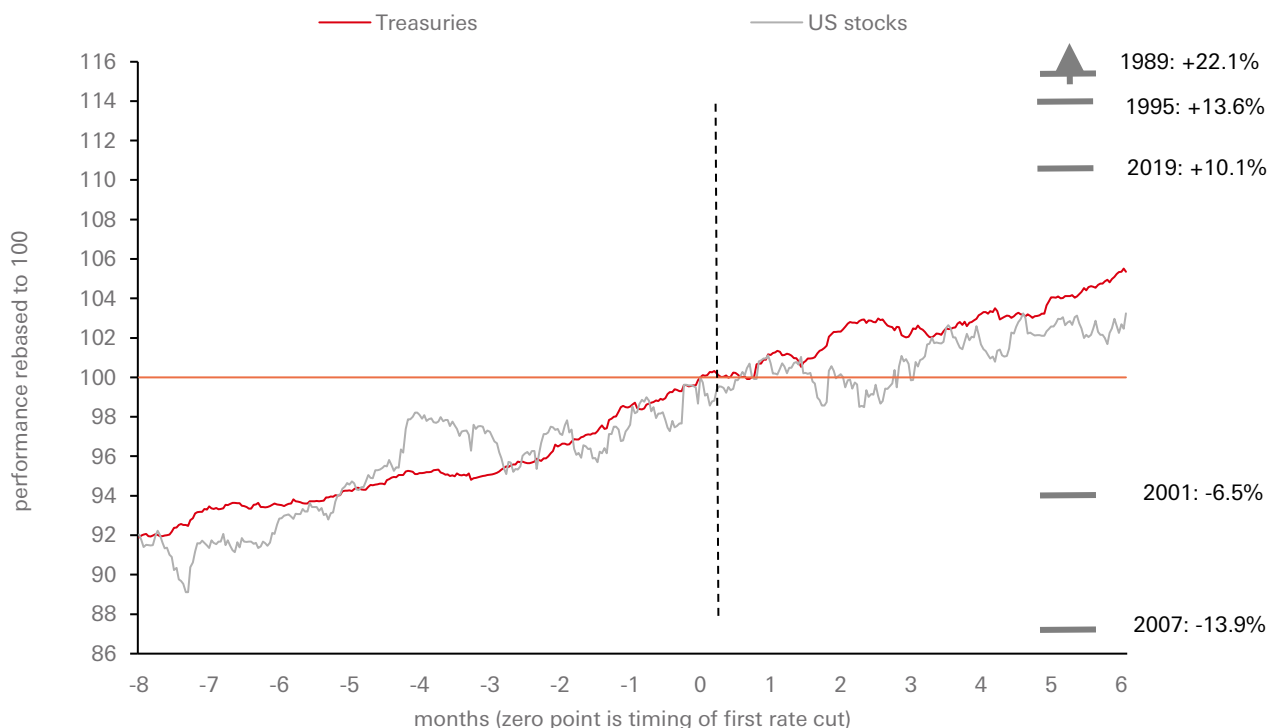
## Priority #2 > Putting cash to work in quality credit and multi-asset portfolios

- ◆ The global rate-cutting cycle is now well underway with the Fed now joining its peers with a 50bps rate cut in September as holding cash is getting even less attractive.
- ◆ Correlations between bonds and equities have dropped, which makes bonds better diversifiers than in recent years.
- ◆ As rates fall and credit spreads look fair for high-rated bonds, we lock in bond yields on quality credit before they fall further.
- ◆ Rate cuts and solid earnings growth should provide fundamental support. We see any volatility as an opportunity to pick up quality assets and balance sector and style exposure through multi-asset strategies which can tap into a broad opportunity set.

### Our focus:

- ◆ We see attractive opportunities in developed market investment grade bonds and focus on medium maturities (5-7 years), as rate volatility could remain with us for now.
- ◆ Investors who are sitting on cash should benefit from extending duration—even partially—towards the 5-7 year goal.
- ◆ In the emerging markets, we focus on high-quality hard currency bonds.
- ◆ Multi-asset strategies provide geographical and multi-asset diversification and opportunity for managers to be tactical.

### Equities and bonds rally well ahead of the first rate cut, but the rally should continue as a recession should be avoided



Source: Bloomberg, HSBC Global Private Banking as at 23 September 2024. Past performance is not a reliable indicator of future performance. Note: the numbers on the right are 6-month US stock returns after the first rate cut.

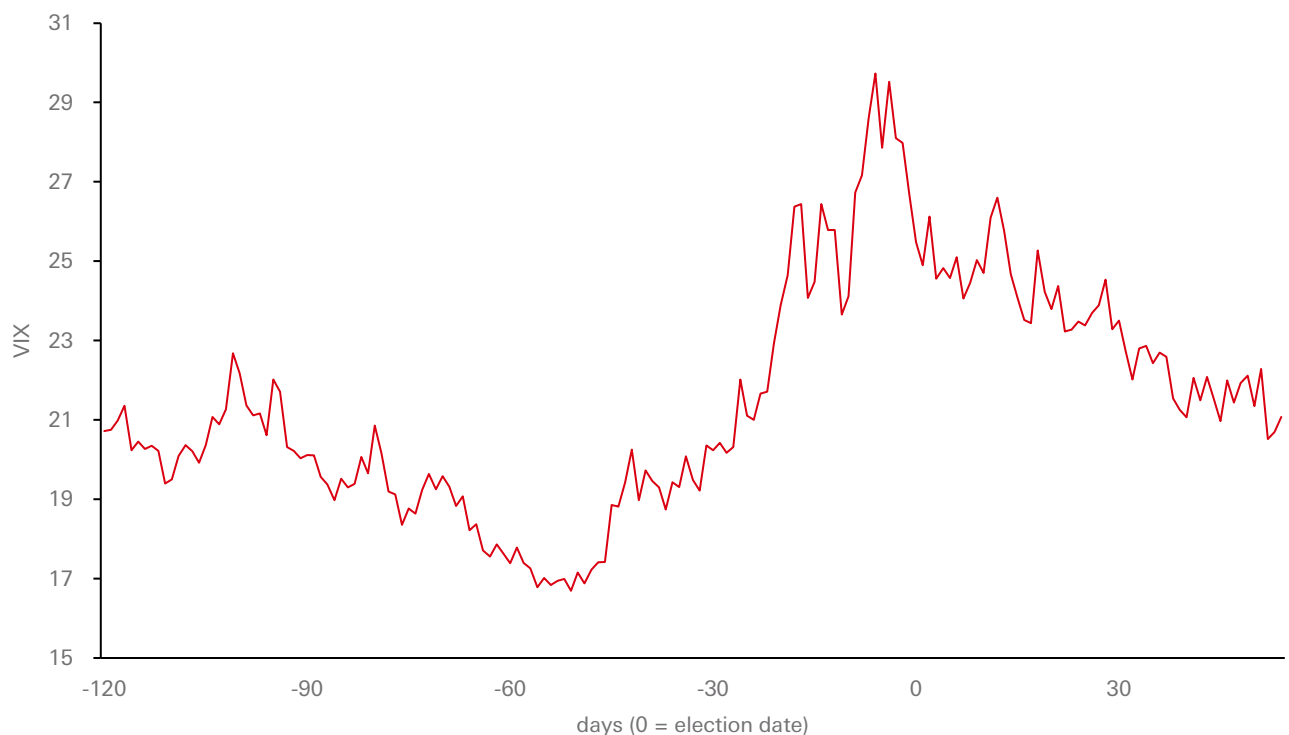
## Priority #3 > Bridging uncertainty with hedge funds and volatility strategies

- ◆ Until the US election result is known, volatility could be more elevated. Central bank meetings and geopolitical risks around the world can also add to the uncertainty in the coming months.
- ◆ We believe more clarity will help markets later in the year, and underlying fundamentals are supportive for investments. However, we bridge this period of uncertainty—with hedge funds and volatility strategies—while remaining invested.

### Our focus:

- ◆ By taking market beta exposure with a backstop, we continue to participate in the many investment opportunities we see, but with some downside protection.
- ◆ In addition, we maintain our overweight on hedge fund exposure to recognise the breadth of opportunities for managers in global rates, equity and currency markets and because hedge funds can help manage portfolio volatility through diversification while exploiting the different central bank rate policies, sector rotation and valuation dispersion

### Volatility tends to temporarily pick up before US elections and come down when the result is known



Source: Bloomberg, HSBC Global Private Banking as at 26 September 2024. Past performance is not a reliable indicator of future performance.

Global Investment Committee Monthly View Summary | October 2024

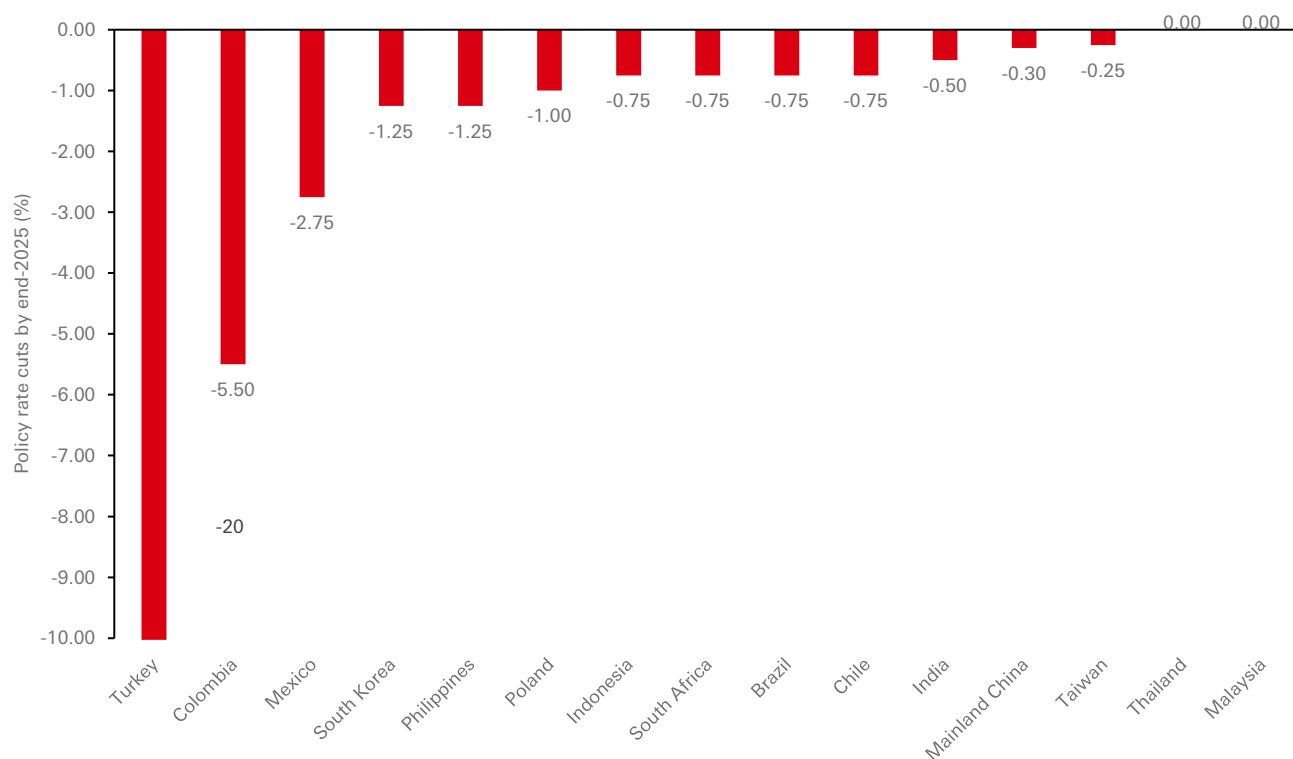
# Priority #4 > Diversifying with Asia's resilient growth leaders and quality credit

- ◆ While growth in the West is modest, Asia's economic engine benefits from structural trends, AI-driven innovation, and an investment boom fuelled by the supply chain revamp and green transformation.
- ◆ Asia's diverse and expanding capital markets offer an appealing opportunity set for diversification at attractive valuations.
- ◆ Post Fed cut, we see higher scope for Asian central banks to cut rates too, helping credit fundamentals and the return outlook of Asian quality bonds along with further support for currencies. Hence, we upgrade IDR and PHP to bullish, while remaining bullish on INR.
- ◆ The recent policy stimulus in China reflects a more proactive easing stance to address deflation issues. But it still falls short of the 'big bang' stimulus that is needed to break the deflationary spiral and turn around the structural growth outlook. Hence, we remain neutral here.

## Our focus:

- ◆ The variety in Asia provides a range of opportunities. We are overweight on equities in Japan, India, South Korea and Singapore, tapping into their structural growth trends.
- ◆ We favour corporate governance reform winners in Japan, China and South Korea.
- ◆ For carry opportunities, we stay focused on Asian IG corporate bonds in hard currency, Indian local currency government bonds and Indonesian USD corporate and local currency government bonds as Asian central banks embark on their rate-cutting cycle.

## More EM countries may see substantial rate cuts between now and the end of 2025, benefiting local bond and equity markets



Source: HSBC Global Research, HSBC Global Private Banking as at 23 September 2024. Forecasts are subject to change.



## Risk Disclosures

### Risks of investment in fixed income

There are several key issues that one should consider before making an investment into fixed income. The risk specific to this type of investment may include, but are not limited to:

#### Credit risk

Investor is subject to the credit risk of the issuer. Investor is also subject to the credit risk of the government and/or the appointed trustee for debts that are guaranteed by the government.

#### Risks associated with high yield fixed income instruments

High yield fixed income instruments are typically rated below investment grade or are unrated and as such are often subject to a higher risk of issuer default. The net asset value of a high-yield bond fund may decline or be negatively affected if there is a default of any of the high yield bonds that it invests in or if interest rates change. The special features and risks of high-yield bond funds may also include the following:

- ◆ Capital growth risk - some high-yield bond funds may have fees and/ or dividends paid out of capital. As a result, the capital that the fund has available for investment in the future and capital growth may be reduced; and
- ◆ Dividend distributions - some high-yield bond funds may not distribute dividends, but instead reinvest the dividends into the fund or alternatively, the investment manager may have discretion on whether or not to make any distribution out of income and/ or capital of the fund. Also, a high distribution yield does not imply a positive or high return on the total investment.
- ◆ Vulnerability to economic cycles - during economic downturns such instruments may typically fall more in value than investment grade bonds as (i) investors become more risk averse and (ii) default risk rises.

#### Risks associated with subordinated debentures, perpetual debentures, and contingent convertible or bail-in debentures

- ◆ Subordinated debentures - subordinated debentures will bear higher risks than holders of senior debentures of the issuer due to a lower priority of claim in the event of the issuer's liquidation.
- ◆ Perpetual debentures - perpetual debentures often are callable, do not have maturity dates and are subordinated. Investors may incur reinvestment and subordination risks. Investors may lose all their invested principal in certain circumstances. Interest payments may be variable, deferred or cancelled. Investors may face uncertainties over when and how much they can receive such payments.
- ◆ Contingent convertible or bail-in debentures - Contingent convertible and bail-in debentures are hybrid debt-equity instruments that may be written off or converted to common stock on the occurrence of a trigger event. Contingent convertible debentures refer to debentures that contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event. These debentures generally absorb losses while the issuer remains a going concern (i.e. in advance of the point of non-viability). "Bail-in" generally refers to (a) contractual mechanisms (i.e. contractual bail-in) under which debentures contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event, or (b) statutory mechanisms (i.e. statutory bail-in) whereby a national resolution authority writes down or converts debentures under specified conditions to common stock. Bail-in debentures generally absorb losses at the point of

non-viability. These features can introduce notable risks to investors who may lose all their invested principal.

#### Contingent convertible securities (CoCos) or bail-in debentures are highly complex, high risk hybrid capital instruments with unusual loss-absorbency features written into their contractual terms.

Investors should note that their capital is at risk and they may lose some or all of their capital.

#### Changes in legislation and/or regulation

Changes in legislation and/or regulation could affect the performance, prices and mark-to-market valuation on the investment.

#### Nationalisation risk

The uncertainty as to the coupons and principal will be paid on schedule and/or that the risk on the ranking of the bond seniority would be compromised following nationalisation.

#### Reinvestment risk

A decline in interest rate would affect investors as coupons received and any return of principal may be reinvested at a lower rate. Changes in interest rate, volatility, credit spread, rating agencies actions, liquidity and market conditions may have a negative effect on the prices, mark-to-market valuations and your overall investment.

#### Risk disclosure on Dim Sum Bonds

Although sovereign bonds may be guaranteed by the China Central Government, investors should note that unless otherwise specified, other renminbi bonds will not be guaranteed by the China Central Government.

Renminbi bonds are settled in renminbi, changes in exchange rates may have an adverse effect on the value of that investment. You may not get back the same amount of Hong Kong Dollars upon maturity of the bond.

There may not be active secondary market available even if a renminbi bond is listed. Therefore, you need to face a certain degree of liquidity risk.

Renminbi is subject to foreign exchange control. Renminbi is not freely convertible in Hong Kong. Should the China Central Government tighten the control, the liquidity of renminbi or even renminbi bonds in Hong Kong will be affected and you may be exposed to higher liquidity risks. Investors should be prepared that you may need to hold a renminbi bond until maturity.

#### Alternative Investments

**Hedge Fund** - Please note Hedge Funds often engage in leveraging and other speculative investment practices that may increase the risk of investment loss. They can also be highly illiquid, are not required to provide periodic pricing or valuation information to investors and may involve complex tax structures and delays in distributing important information. Alternative investments are often not subject to the same regulatory requirements as, say, mutual funds, and often charge high fees that may potentially offset trading profits when they occur.

#### Private Equity

Please note Private Equity is generally illiquid, involving long term investments that do not display the liquid or transparency characteristics often found in other investments (e.g. Listed securities). It can take time for money to be invested (cash drag) and for investments to produce returns after initial losses.

### **Risk disclosure on Emerging Markets**

Investment in emerging markets may involve certain, additional risks which may not be typically associated with investing in more established economies and/or securities markets. Such risks include (a) the risk of nationalization or expropriation of assets; (b) economic and political uncertainty; (c) less liquidity in so far of securities markets; (d) fluctuations in currency exchange rate; (e) higher rates of inflation; (f) less oversight by a regulator of local securities market; (g) longer settlement periods in so far as securities transactions and (h) less stringent laws in so far the duties of company officers and protection of Investors.

### **Risk disclosure on FX Margin**

The price fluctuation of FX could be substantial under certain market conditions and/or occurrence of certain events, news or developments and this could pose significant risk to the Customer.

Leveraged FX trading carry a high degree of risk and the Customer may suffer losses exceeding their initial margin funds. Market conditions may make it impossible to square/close-out FX contracts/options. Customers could face substantial margin calls and therefore liquidity problems if the relevant price of the currency goes against them.

The leverage of a product can work against you and losses can exceed those of a direct investment. If the market value of a portfolio falls by a certain amount, this could result in a situation where the value of collateral no longer covers all outstanding loan amounts. This means that investors might have to respond promptly to margin calls. If a portfolio's return is lower than its financing cost then leverage would reduce a portfolio's overall performance and even generate a negative return.

### **Currency risk – where product relates to other currencies**

When an investment is denominated in a currency other than your local or reporting currency, changes in exchange rates may have a negative effect on your investment.

### **Chinese Yuan (“CNY”) risks**

There is a liquidity risk associated with CNY products, especially if such investments do not have an active secondary market and their prices have large bid/offer spreads.

CNY is currently not freely convertible and conversion of CNY through banks in Hong Kong and Singapore is subject to certain restrictions. CNY products are denominated and settled in CNY deliverable in Hong Kong and Singapore, which represents a market which is different from that of CNY deliverable in Mainland China.

There is a possibility of not receiving the full amount in CNY upon settlement, if the Bank is not able to obtain sufficient amount of CNY in a timely manner due to the exchange controls and restrictions applicable to the currency.

### **Illiquid markets/products**

In the case of investments for which there is no recognized market, it may be difficult for investors to sell their investments or to obtain reliable information about their value or the extent of the risk to which they are exposed.

### **Environmental, Social and Governance (“ESG”) Customer Disclosure**

In broad terms “ESG and sustainable investing” products include investment approaches or instruments which consider environmental, social, governance and/or other sustainability factors to varying degrees. Certain instruments we classify as ESG or sustainable investing products may be in the process of changing to deliver sustainability outcomes. There is no guarantee that ESG and Sustainable investing products will produce returns similar to those which don't have any ESG or sustainable characteristics. ESG and Sustainable investing products may diverge from traditional market benchmarks. In addition, there is no standard definition of, or measurement criteria for, ESG and Sustainable investing or the effect of ESG and Sustainable investing products. ESG and Sustainable investing and related measurement criteria are (a) highly subjective and (b) may vary significantly across and within sectors.

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An investment which is considered to fulfil sustainable criteria today may not meet those criteria at some point in the future. When we allocate an HSBC ESG and Sustainable Investing (SI) classification: HSBC ESG Enhanced, HSBC Thematic or HSBC Impact (this is known as HSBC Purpose in the UK) to an investment product, this does not mean that all individual underlying holdings in the investment product or portfolio individually qualify for the classification. Similarly, when we classify an equity or fixed income under an HSBC ESG Enhanced, HSBC Thematic or HSBC Impact (this is known as HSBC Purpose in the UK) category, this does not mean that the underlying issuer's activities are fully aligned with the relevant ESG or sustainable characteristics attributable to the classification. Not all investments, portfolios or services are eligible to be classified under our ESG and SI classifications. This may be because there is insufficient information available or because a particular investment product does not meet HSBC's SI classifications criteria.

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